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PRIME MINISTER

LIVERPOOL

I briefly mentioned the developing situation in Liverpool at Thursday's Cabinet.

#### The current situation

So far, there have been no formal statements by Liverpool City Council about their rates and budgets for the coming year.

However, the widely publicised intention of the majority group is understood to be to increase council employment, to initiate a major municipal building programme, to reduce council rents by £2 a week, and not to increase rates to cover these additional costs. (They would calculate the rate on the basis of their own assumption about the amount of rate support grant they consider they "ought" to be receiving).

We can still only speculate whether, in the event, the majority group will hold to this decision. But they have inherited a situation in which unless they make large cuts they will in any event require a rate increase of 30-40% next year. Faced with a humiliating climb-down or a very large rate increase, it is quite conceivable that they would go ahead with the high expenditure/low rates policy in the hope that they could provoke the Government to move in, take over, and take on itself the odium of increasing rates and cutting services.

#### Possible scenarios

There are three possibilities:

- (a) the council sets a realistic rate and budget. This would be a difficult decision for them for the reasons



mentioned above. It is however by no means impossible if they can be brought to understand the grave consequences of the course they are proposing, that they will decide to stay within the bounds of legality and explain their position to their supporters as best they may;

(b) the council will set an unrealistically low rate, as they are proposing. This will automatically entail financial difficulties. With the ending of the supplementary rating provisions, there is no way an inadequate rate can be increased during the year. Legal challenge to the rate might result in a direction to the council to reduce their budget, but it would be unlikely that they would be able to achieve sufficient reductions at that relatively late stage to avoid running out of money.

(c) the council will fail to set a rate. In this case, they could be ordered by the court to fix a rate. They would then have to decide whether to set an adequate rate or to hold to their current proposals.

The situation is still fluid, and it is hard to predict which of the above outcomes is more likely. But with little evidence of support for the Liverpool majority group from other Labour councils and the national Labour Party, there is clearly a possibility that they could decide after all to set a legal rate.

### Objectives

Following the recent discussion in MISC 95, we are beginning to prepare contingency legislation which will enable us to dismiss councillors and replace them with a Commission. Such legislation would, however, be highly controversial and difficult to enact. It may well be possible to avoid introducing it altogether. If it has to be introduced, it should be in a situation where the Government clearly has no realistic option but to do so.



Our objectives must therefore be, first, to seek to sap the confidence of the Liverpool majority group so that they do not take action which might make the appointment of commissioners inevitable; and second, if this is not practicable, so to order developments that the appointment of commissioners is seen clearly as an unavoidable response to action by the council, not as a pre-emptive movement by Government.

#### Proposed courses of action

There are too many uncertainties at this stage to be able to plan far ahead. We shall keep in close touch with developments, and judge an appropriate response accordingly. If necessary, there are several possible avenues of approach short of takeover that could be deployed in a graduated response. They include:

ratepayer challenge to the legality of the rate;

extraordinary audit, with the possibility of surcharge and disqualification of councillors;

specific default powers to deal with deficiencies in particular services;

requiring undertakings in return for permission to borrow (if the council, having initially embarked on a high expenditure/low rate policy decided that it could not after all tolerate the consequences).

The immediate aim must be to seek to dissuade the council from making an illegal rate next year by ensuring that the serious consequences - for themselves, for their ratepayers and for the people of Liverpool in general - are widely known



/ in the area. I enclose a note of the main points that need to be made, at an appropriate occasion in the near future. It makes it clear in particular that an illegal rate would lead to failure to pay the council's employees and a breakdown in the life of the community. The resulting mess could not easily or quickly be cleared up whatever central Government action might be taken. It also makes it clear that the difficulties with which the council would be faced arise from long-established law and practice in the local government field, and not from any action by the present Government.

We shall need to follow this up with further press briefing. There is an important case to get across, and we must ensure that it is widely understood.

I am sending copies of this letter to Willie Whitelaw, Keith Joseph, Michael Heseltine, Norman Fowler, <sup>Norman Tebbit</sup> ~~Tom King~~, Leon Brittan, and Michael Havers. I am at your disposal if you wish to discuss all this before I leave after Cabinet on Thursday.

meeting  
Wednesday

PJ

P J

12 December 1983



DRAFT STATEMENT

I become increasingly concerned that the majority group on the Liverpool City Council do not seem to understand the consequences that would follow if, according to reports I have read, they were to vote for substantial additional expenditure, reduce council rents and then vote for a rate which would be inadequate to meet the resulting extra costs.

These consequences would be both practical and legal. They would flow not from any new legislation of this Government, but from rules embodied in existing local government legislation.

Every local authority is under a legal duty to levy a rate that is sufficient to meet its planned expenditure. If it does not do so, well established legal and audit procedures immediately come into operation. If the rate is unlawful and any costs are incurred as a consequence (for example if money had to be borrowed and interest paid) those costs would be chargeable to the councillors who voted for an illegal rate. Under the surcharge procedures, the councillors could have to pay back personal debts which could amount to thousands of pounds. If the financial losses were serious, they could well be liable to disqualification from office. I emphasise that all this could follow automatically, under existing legislation, from the fixing of a clearly inadequate rate.

There would be practical consequences. Councillors should ask themselves whether, after the making of an illegal rate, the Treasurer would be able to continue signing cheques. How would the wages and salaries of the staff be paid? How would the council pay its debts for instance to local firms for goods



and services supplied?

And what of the public which ~~the~~ <sup>the council</sup> council exists to serve? How will ~~they~~ pay to buy the food for children being looked after in the council's childrens' homes? How will they pay the staff to look after the elderly and the handicapped? How will they pay the bills to heat the schools and old peoples' homes?

I hope very much that the Liverpool City Councillors are taking the most careful legal advice from their officers and others qualified to advise them on the possible consequences of voting for an illegal rate.

It may be that some councillors are prepared to face up even to all this in the hope that somehow the Government will come to the rescue. I must make it as clear as I possibly can that the Government has no power to take over the running of the council. Perhaps Parliament could be persuaded to give us this power, but I would guess that the legislation (which would be highly controversial) would take some time to enact.

The consequences of the city council making an illegal rate would be very grave for the City of Liverpool and for Merseyside as a whole. The problems faced by Merseyside are already serious. I do not believe that the people of Liverpool could ever forgive a council majority which deliberately and consciously set out to bring chaos to the affairs of the city.

I hope that Liverpool City Councillors will ponder very carefully indeed what I have said.

THE COMMONWEALTH OF AUSTRALIA

12 DEC 1983

